

# **Governor's May Budget Revision Fiscal Year 2004-2005**

## **Health and Human Services Agency Summary**

The May Revision of the 2004-05 Budget underscores the Administration's firm commitment to providing essential health and human services to California's most vulnerable and at-risk residents. Although the State faces a number of ongoing fiscal challenges, the May Revision restores funding for key programs within the Health and Human Services Agency (HHSA), includes new State and federal funding in several critical areas, and provides an update on HHSA reform efforts unveiled by the Administration in January. Like the budget proposed in January, the May Revision reflects the Administration's belief that the guiding principles for California's health and human service expenditures must be to:

- Maintain essential services to those most in need.
- Recognize children as a priority investment.
- Promote personal responsibility.
- Encourage work participation.
- Enhance program effectiveness and accountability.

This summary of the May Revision provides highlights of the Administration's proposals for HHSA in five areas: 1) Restorations; 2) New Investments; 3) Update on Reforms; 4) Alternative Solutions; and 5) New Federal Financing.

### **RESTORATIONS**

By implementing program reforms, maximizing federal funding and focusing on alternative solutions to promote efficient program management, the Administration is able to avoid reductions proposed in January that would have affected some of the State's most vulnerable residents. The May Revision includes the following proposals:

- **In-Home Supportive Services (IHSS) Residual Program** – Restores funding for the IHSS Residual Program, which helps pay for services provided by family members to enable aged, blind, or disabled adults, as well as disabled children, to stay in their home. In an effort to save this valuable program, the Administration initiated discussions with federal officials about the possibility of obtaining federal funds. After a series of encouraging conversations, the Administration submitted a federal waiver for Medicaid support of the IHSS Residual Program. The May Revision includes an increase of \$135.2 million in General Fund (GF) dollars to pursue that waiver, which will allow the federal government to pick up a share-of-cost for the program estimated at \$264 million in the budget year. (See *"Update on Reforms"* for more details.)

- **Medi-Cal Provider Rate Reduction** – Rescinds the proposal for a 10 percent reduction in reimbursement rates for Medi-Cal providers, which would have been in addition to the previous Administration’s 5 percent provider rate reduction, in order to encourage more providers to serve the low-income children and families, seniors, and disabled persons enrolled in the Medi-Cal program.
- **Enrollment Caps and Co-Payments for Health and Human Services Programs**
  - Healthy Families Program (HFP) – Fully funds all enrollments into the HFP, a subsidized health insurance program for children in families with low to moderate income who are ineligible for Medi-Cal. In addition to rescinding the proposal to cap HFP enrollment at 734,000, the May Revision proposes to replace the two-tiered benefit proposal to offer all subscribers the same benefit package, but increase premiums for subscribers with family incomes above 200 percent of the Federal Poverty Level (FPL) to \$15 per month per child (currently \$9) and \$45 per month for three or more children (currently \$27), effective July 1, 2005.
  - AIDS Drug Assistance Program (ADAP) – Rescinds the proposed enrollment cap for clients of ADAP, which was established in 1987 to help ensure that HIV-positive uninsured and underinsured low- and moderate-income individuals have access to pharmaceutical (drug) therapies that can be expected to increase the duration and quality of life.
  - Children’s Medical Services (CMS) – Rescinds proposed enrollment caps for California Children’s Services (CCS) and the Genetically Handicapped Persons Program (GHPP), and rescinds the proposed GHPP co-payments. CCS is a statewide program that treats children with certain physical limitations and chronic health conditions or diseases. GHPP provides health coverage for Californians 21 years of age and older who have specific genetic diseases, including cystic fibrosis, hemophilia, sickle cell disease, and certain neurological and metabolic diseases. GHPP also serves children under the age of 21 with GHPP-eligible medical conditions who are not financially eligible for CCS.
  - Medi-Cal for Immigrants – Rescinds the proposed Medi-Cal enrollment caps on breast and cervical cancer treatment and non-emergency medical services for newly documented immigrants, and prenatal and long-term care for undocumented immigrants.
- **Block Grant for Immigrant Programs** – Includes an increase of \$6.6 million (GF) by rescinding the proposal to combine funding for four programs that serve recently documented immigrants into a block grant. This proposal will allow full benefits to continue without altering the administrative structure of these programs (HFP, California Food Assistance Program, Cash Assistance Program for Immigrants, and CalWORKS benefits for recently documented immigrants).
- **Update Early and Periodic Screenings, Diagnosis and Treatment (EPSDT) Maximum Provider Rates** – Maintains maximum provider rates by adjusting the

Governor's Budget proposal to reflect a lower caseload and increased county share-of-cost. Based upon further review, the Administration concluded that the current formula is flawed and, if used, would have resulted in a significant reduction in rates and jeopardized access to services. Therefore, the May Revision restores \$60 million (\$40 million in GF) for EPSDT provider rates.

- **Community Challenge Grants** – Includes \$20 million in reimbursements to restore funding for community-based teen pregnancy prevention efforts that encourage youth to make responsible choices, and have contributed to a dramatic decline in California's teen pregnancy rates.

## NEW INVESTMENTS

Savings achieved through program reforms and efforts to maximize program efficiency have also enabled the Administration to propose the investment of funds in the following areas:

- **West Nile Virus** – Includes \$1 million (GF) for the implementation of a long-term strategic plan and program for surveillance, prevention, and control of West Nile virus (WNV). This proposal will provide the Department of Health Services (DHS) and local agencies with the capacity to conduct various scientific tests, create a geographic information system to predict risk and produce outreach and educational materials. These early identification and prevention measures will help minimize the impact of WNV on Californians.
- **Transitional Food Stamp Program** – Includes an increase of \$1.2 million in 2003-04 and \$3.5 million in 2004-05 (GF) to implement legislation enacted in 2003 that expanded eligibility for the Transitional Food Stamp Program, which provides Food Stamp benefits to families transitioning from CalWORKs.
- **Medi-Cal Rate Increase for County Organized Health Systems (COHS)** – Proposes a 3 percent rate increase (\$15.2 million in GF) in the Medi-Cal reimbursement rate for COHS health plans to help ensure that these managed care plans, which currently operate in eight counties, have the resources needed to continue providing essential health care services to low-income children, seniors, and other Medi-Cal beneficiaries.
- **Medical Marijuana Identification Card (MMIC) Program** – Includes \$983,000 (Health Statistics Special Fund) to implement the statutorily required MMIC program and registry, including the development of regulations and printing of new applications and identification cards related to the establishment and collection of the new fee (SB 420, Chapter 875, Statutes of 2003).

## **UPDATE ON REFORMS**

### **Medi-Cal Program Redesign**

The May Revision reaffirms the Administration's belief that a redesign of the Medi-Cal program is absolutely necessary in order for California to continue providing health care coverage to California's low-income children and adults.

To restructure Medi-Cal, the State will need a waiver from federal requirements that severely restrict California's ability to provide services in the most effective and efficient manner possible. In redesigning Medi-Cal, the Administration is committed to the twin imperatives of maintaining current eligibility of low-income populations while containing costs and maximizing efficiencies.

The Administration's Medi-Cal redesign efforts seek to advance five principal objectives. While consistent with the objectives outlined in the Governor's Budget, they have been modified to reflect the Administration's evolving views, as informed by a stakeholder input process and an increased understanding of relevant policy issues.

- Expand the use of organized systems of care that increase access, improve outcomes, and contain costs.
- Revise the Medi-Cal eligibility and enrollment process to make it more efficient and improve customer service.
- Tailor benefits to the needs of distinct Medi-Cal populations.
- Incorporate beneficiary cost sharing that promotes personal ownership and responsibility, aligns Medi-Cal with other publicly funded health programs, and encourages appropriate utilization of services.
- Stabilize financing of the State's safety net to ensure that hospitals have the resources to care for low-income and uninsured Californians.

Given the magnitude and complexity of the redesign effort, the Administration wants to carefully review and consider all available input and expertise before moving forward with the redesign. In addition, the Administration learned a great deal as a result of the stakeholder process, which concluded at the end of April.

In recognition of the scope of this undertaking, the Administration intends to submit a waiver proposal and legislative bill language to the Legislature on August 2, and to submit a waiver to the federal government in the fall, as originally proposed.

### **In-Home Supportive Services (IHSS):**

The Governor's Budget outlined a number of proposed reforms in the IHSS program, including making the employer-of-record and Advisory Committee requirements optional for counties, and reducing state funding for worker wages and benefits. In addition to incorporating these reforms, the May Revision includes a proposal to strengthen quality assurance within the IHSS program. These proposals are not impacted by the Administration's submission of a federal waiver to support the IHSS Residual Program.

- **Quality Assurance** – Improves the quality of IHSS needs assessments and reduces over-authorization of service hours by providing program oversight and fraud investigation activities, training state monitoring staff, establishing a statewide training contract and training academy for county staff, and implementing authorization controls for protective supervision.

This proposal will also require more frequent assessment of service needs when the recipient's condition and care needs are likely to change over time while allowing more time than a year between reassessments of recipients whose conditions are stable and unlikely to change over time. In addition, the proposal will mandate statewide use of standardized hourly task guidelines.

- **Reduce State Funding for Worker Wages and Benefits** – Reduces the level up to which the State provides a share-of-cost for IHSS provider wages and benefits to the State minimum wage.
- **Employer-of-Record (EOR) Requirement** – Makes optional the requirement that counties must establish an EOR to serve as the employer of IHSS providers for the purpose of collective bargaining over wages and benefits.
- **Advisory Committees Requirement** – Makes optional the requirement that counties must maintain IHSS Advisory Committees to provide recommendations to the Board of Supervisors on administration of the program.

### **Regional Centers**

The following key policy objectives serve as the foundation for the Administration's reforms to Regional Centers:

- Everyone who is eligible should be entitled to receive necessary services for their health and safety.
- There should be a share-of-cost for those who can afford to pay.
- Necessary services should be provided in the least costly manner possible.
- Individuals with developmental disabilities should have the opportunity to live in the most integrated and least restrictive setting possible.

The Administration is on track with the reforms proposed in the Governor's Budget that will provide an estimated \$100 million (GF) savings.

- **Institute Co-Payments for Those Who Can Afford to Pay** – Imposes modest fees for limited services, using a sliding scale, on families whose income is 400 percent or more of the Federal Poverty Level. Department of Developmental Services (DDS) staff provided the details of the Family Cost Participation Program to the Legislature in April.
- **Standardize the Purchasing of Services** – Establishes uniform guidelines and parameters for Regional Centers and consumers' planning teams. DDS developed

guidelines with the input and cooperation of stakeholders and presented the draft standards to the Legislature in April.

- **Temporary Cost Containment Measures Implemented in 2003-04** – Continues measures that have contributed to the decline in Regional Center program growth.
- **Streamline Operations Budget** – Continues seeking to minimize administrative and managerial costs.

### **Foster Care Reform**

The Administration's proposed reforms in the foster care program are designed to promote the care of more children in a family home environment and to shorten the period of time children spend in foster care, particularly in group homes. The following key policy objectives serve as the foundation for the Administration's foster care reforms:

- Assure the placement of children in settings appropriate to their needs, particularly family home environments.
- Reduce costs, maximize cost effectiveness, and achieve program efficiencies through flexible funding focused on preventative measures.
- Maximize federal revenues where possible.

The May Revision includes reforms proposed in the Governor's Budget as well as new reform options, including:

- Strategies to establish equity in foster care payments and to standardize rates paid to Foster Family Agencies (FFAs).
- Stronger incentives for relatives to commit to adoption and guardianship.
- Reducing the administrative requirements for re-determination of federal foster care eligibility from every six months to annually, with no effect on child welfare services or social worker activities.
- A series of audit reforms designed to improve the level of services received by children placed in group homes and FFAs through increased accountability of foster care providers.

These new reforms and strategies, when combined with reducing caseload, will result in total savings of \$32.5 million (GF) in 2004-05.

### **CalWORKs and Child Care Reform**

The following key policy objectives serve as the foundation for the Administration's CalWORKs reforms:

- Strengthen the focus on employment to maximize participation in the workforce.
- Maintain essential services necessary to transition recipients to the workforce.
- Remain within available federal and state Maintenance-of-Effort requirements.

The May Revision includes two amended proposals for the CalWORKs program:

- **Job Search** – Makes optional the requirement that applicants begin job search activities immediately, even prior to eligibility verification. By doing so, the State will ensure that resources for job search and related activities (e.g., child care) are dedicated to individuals deemed by counties to be eligible for the program.
- **Child Care** – Includes additional funding to continue providing subsidized child care for 11 and 12 year olds not likely to receive before- and after- school care. This revision reflects the Administration's recognition that there are not before- and after-school programs in all localities statewide and that these programs may not operate during hours when families need care (e.g., nights and weekends).

## ALTERNATIVE SOLUTIONS

As part of the Administration's ongoing effort to address the State's fiscal crisis, the May Revision also proposes the following GF adjustments:

- **Coalinga State Hospital** – Proposes savings of \$9.5 million by maximizing the use of temporary bed capacity. This proposal will delay activation of Coalinga State Hospital from August 2005 to September 2005 and reduce the number of beds initially activated from 575 to 200.
- **Child Welfare Services (CWS)** – Includes a decrease of \$17.1 million to reflect the Administration's belief that it can no longer afford to waive the 30 percent nonfederal county share-of-cost to the CWS Augmentation.
- **Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program** – Increases the EPSDT county match from 10 percent to 20 percent to encourage the appropriate utilization of services and improvements in program management.
- **Los Angeles County Reconciliation** – Proposes savings of \$33.3 million to reflect a reconciliation of State and county Medi-Cal eligibility records within Los Angeles County. As part of its ongoing effort to ensure that Medi-Cal serves only those who are eligible, DHS found that approximately 122,000 of Los Angeles County's 2.5 million Medi-Cal beneficiaries were ineligible as of April 30. DHS began notifying these individuals in early April.
- **Medi-Cal Pharmacy Reimbursement Realignment** – Proposes a savings of \$79.3 million by lowering drug cost reimbursement to average wholesale prices minus 20 percent and, in conjunction, raising the dispensing fee from an average of \$3.59 to \$8.30.

- **Delay Medi-Cal Checkwrite by One Additional Week** – Proposes one-time savings of \$143 million by delaying the last checkwrite to the next fiscal year. This will reduce an additional checkwrite in 2004-05 while minimizing the impact on providers by delaying one payment an additional week.

## **NEW FEDERAL FINANCING**

The Administration has made it a high priority to seek to maximize federal funding for important State programs and services. By working cooperatively and constructively with federal officials in Washington, D.C., the Administration has secured, or is confident that it will secure, new federal funds for a number of priority programs, including:

- **State Health Insurance Assistance Program** – A one-time increase of \$183,000 for the period April 1, 2004, through March 31, 2005, for the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which provides counseling to Medicare beneficiaries on the new Medical Drug Discount Card Program.
- **In-Home Supportive Services (IHSS) Independence Plus Waiver** – DHS has submitted a Section 1115 Medicaid waiver to the federal Centers for Medicare and Medicaid Services seeking federal Medicaid matching funds for California's IHSS Residual Program, a State-only program that provides personal care services to low-income individuals with serious health conditions who may otherwise be forced into institutions. This could result in \$264 million in federal funds and would include \$135.2 million in new State expenditures not included in the Governor's Budget.
- **Child Welfare Services/Case Management System** – DSS has been working with the federal government to resolve issues that led to a reduction of federal funding for the Child Welfare Services/Case Management System, which automates child welfare services for children and their families. As a result of these negotiations, California will receive approximately \$57 million. Federal officials have also agreed to restore funding retroactively to July 2003 once they agree on an acceptable California plan of action for competitively procuring the system's activities.
- **Food Stamp Sanction Penalties** – The U.S. Department of Agriculture (USDA) has assessed California penalties totaling \$186.9 million for 2000, 2001, and 2002 as a result of California's Food Stamp (FS) error rate. California sought administrative relief for the 2001 and 2002 penalties and, as part of the agreement reached with federal officials, California's penalty is being reduced by \$174.9 million.
- **Case Management and Information Payrolling System (CMIPS)** – Enhanced federal funding for CMIPS, which supports the IHSS Program, in order to draw down federal funds that will pay 90 percent of the cost for system maintenance and procurement, design, and development of a replacement system. Total estimated funding for the next two fiscal years is \$4.9 million.